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ATTACHMENT 4

The Private Payphone Market Goes Public, Sort of

The major publicly traded IPPs are, of course, required to file periodic reports with the Securities and Exchange Commission, which provides a glimpse into the values being accorded such properties by the actual participants in the industry. In particular, two of the major companies—PhoneTel Technologies Inc. and Communications Central Inc.—have published considerable detail regarding their respective acquisition activities over recent years. The third major acquisition company, Peoples Telephone, has not published terms of its deals in sufficient detail to permit the type of analysis presented in this article.

Valuation Methods

A few words about the valuation methods used may be helpful. In instances such as the July 1993 acquisition of Public Access Inc., the analysis is straightforward. It was an all cash acquisition, so a simple division of the \$5.75 million acquisition price by the 1,933 phones acquired results in the \$2,885 price per phone indicated. In the single case in which Communications Central stock was used as part of the payment, the stock is valued at the current market value when the terms of the acquisition were finalized. In cases here inmate and third-party "contract" managed phones were involved, we arbitrarily assigned a value of \$2,000 to the managed

Table 1
Acquisitions by Communications Central
(\$000s)

Nov. '94	Telco Inc.	12,590	12,590	7,303	2,250	-	-
July '94	InVision Telecommunications Inc.	4,246	4,246	3,770	-	236	263
June '94	Pay Telephone of Pennsylvania Inc.	1,105	1,105	586	685	-	-
March '94	Southnet Communications Corp.	1,650	1,650	485	450	-	-
July '93	Public Access Inc.	5,750	5,750	550	1,993	-	-

Source: Company 1996 10-K & HBW

payphones. When both payphones and inmate files are involved, we assign the inmate lines exactly twice the value of a payphone. Although these allocations represent our best judgment, they are essentially arbitrary. However, as an indication of the trends in valuation, consistent treatment results in a valid picture.

Communications Central

Communications Central was very active in acquisitions of both inmate and public payphone properties from the time of its 1993 initial public offering of common stock until early 1995. An abrupt collapse of the company's stock price (see chart) in early 1995 was accompanied by a curtailment of the company's access to capital and ability to continue on its acquisition path. However, during the period that it was active, the company completed ten acquisitions that were significant enough to warrant disclosure to the public. Table 1 presents a summary of the timing and nature of each of these acquisitions, and Table 2 presents our analysis of the implicit private market value placed on each of these transactions, virtually all of which were for stock.

PhoneTel Technologies Inc.

Just as Communications Central faded from the acquisition scene, PhoneTel Technologies, revitalized by a change of management and an infusion of capital, undertook a series of acquisitions, the most recent of which is that of Communications Central itself. If completed, the Communications Central deal will make PhoneTel by far the largest IPP in terms of pay-

phones owned, and the largest publicly-traded third party provider of inmate phone service as well.

With the exception of the Communications Central acquisition, which as of this date has not been completed (pending completion of the necessary financing), all of the PhoneTel's activity has related to public payphones (as

opposed to inmate lines). Table 3 presents the price per payphone for each acquisition as we compute it (see footnote 2).

Trends in Private Market Values

As readers will recognize, provisions of section 276 of the Telecommunications Act of 1996 and the resulting FCC Payphone Order appear likely to have a highly favorable impact on the

Table 2
Acquisitions by Communications Central
(\$000s)

Acquisition Date	Company	Public Payphones	Inmate Lines	Total Value	Notes
Nov. '94	Telen Inc.	12,500	12,500	5,500	b
July '94	InVision Telecommunications Inc.	4,246	4,246	15,763	2,000 c
June '94	Pay Telephone of Pennsylvania Inc.	1,105	1,105	1,613	d
March '94	Southnet Communications Corp.	1,650	1,650	3,667	d
July '93	Public Access Inc.	5,750	5,750	2,885	d

Source: Company 1996 10-K & HBW

Table 3
PhoneTel Technologies Acquisition History

Acquisition Date	Company	Public Payphones	Inmate Lines	Total Value	Notes
July '94	Alpha Pay Phones	2,000	5,000	1,500	100

*\$5,500 per payphone and \$11,162 for each of 4,700 inmate lines by our calculations.

Source: PhoneTel 1996 10-K, HBW

Pre-paid Phone Card

- Customize for your business
- Use for incentives or promotional
- Lowest Domestic & International Rates Offered
- Rechargeable
- Wholesale our existing card
- Call now to generate HIGH PROFITS!!!

International CALLBACK

- Exclusive billing program for your customers
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- Lowest Rates
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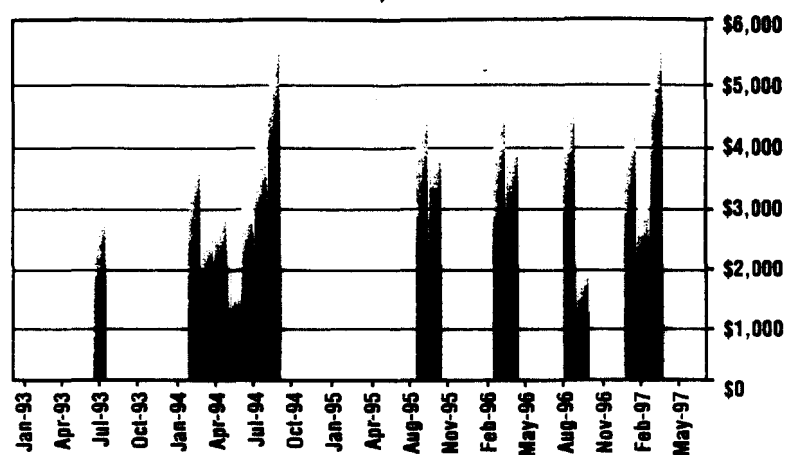
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Fax: (305) 371-9888

Reader Service No. 76

50 Phone+ July 1997

**Figure 1
Payphone Acquisition Prices**

January 1993 - June 1997



Source: HBW

payphone business generally, increasing the payphone revenue generation of both the IPPs and the local exchange telephone companies. Important portions of the order are currently under appeal before the Federal Appeals Court in Washington, D.C., with a decision possible by the end of July. However, it appears likely that a complete reversal of the FCC order is unlikely. Given this view, it is reasonable to conclude that payphone valuations in the private and public markets alike should be higher today than in the past. But are they?

Figure 1 graphs the prices of the transactions listed in tables 1 through 3 over time.

The striking feature of Figure 1 is that it does not show any clear trend in the apparent pricing of private market payphone transactions. Several of the acquisitions, such as the September, 1996, acquisition of the Amtel Payphones by PhoneTel, were essentially distress sales and are probably not representative of the value of profitable payphone routes (Amtel was in bankruptcy). If anything, the pricing of such deals from 1995 on has been remarkably consistent in the \$4,000 per phone range, with the exception of the PhoneTel/Communications Central transaction (but even there we may be underestimating the value of the inmate lines, hence overstating that of the payphones). It is particularly notable that the deals done after passage of the Telecom Act show no general increase in private market pricing.

Future Trends

Evidence from the acquisition activity in the industry tends to confirm what the stocks of the publicly traded payphone companies themselves are telling us: The Telecom Act and Payphone Order have not, in fact, generated any

general increase in the valuation of either the stocks of the IPPs or of payphone assets themselves. Or at least not so far as the reported transactions indicate.

At least one of the public companies (Peoples Telephone) has stated publicly that it has seen the "asking price" of independently owned payphone routes escalate to the \$6,500 per phone range. However, the asking price is not necessarily the market-determined value, and no transactions have been reported at those levels that we know of. (At least one other payphone company said privately that at \$6,500 per phone, it would be selling, not buying.)

On the other hand, the regulatory and other changes in the payphone industry have the potential to double or triple the cash flow generated by a typical payphone (through dial-around compensation and deregulation of the local coin rate). Given this, it appears reasonable to suggest that the market should show some increase in valuation levels for both public and private companies. But that has yet to be seen. My conclusion is that investors—public and private alike—have become so gun-shy of this industry, that the benefits of the Payphone Order will not be reflected in valuation until they are reflected in the reality of improved cash flow and profitability rather than the mere potential they are perceived to be today.

John S. Bain is a senior vice president and director of research at Hoak Breedlove Wesneski & Co., a Dallas-based investment and merchant banking firm with involvement in all aspects of the telecom industry. For more information, call (972) 960-4846.

ATTACHMENT 5

FLEX ANI2.3M

ANNUAL CAPITAL COST PER CALL OF PROVIDING FLEX-ANI @ 18959 OFFICES

INVESTMENT		YR1	YR2	YR3	YR4	YR5	YR6	YR7
L1—Software Inv./per office	9000	(Start of Year)						
L2 — Number of Offices	18959							
Total Initial Investment L1*L2		\$170,631,000						
DEPRECIATION								
L3—Depreciation per year @7 yr. life	7	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857
L4—Accumulated Depreciation		\$24,375,857	\$48,751,714	\$73,127,571	\$97,503,429	\$121,879,286	\$146,255,143	\$170,631,000
L5 NET INVESTMENT		\$146,255,143	\$121,879,286	\$97,503,429	\$73,127,571	\$48,751,714	\$24,375,857	\$0
RETURN AND TAXES								
L6 RETURN L5*11.25%		\$16,453,704	\$13,711,420	\$10,969,136	\$8,226,852	\$5,484,568	\$2,742,284	\$0
L7 FIT Gross Up (.34/(1-.34))*L6	0.5151515	\$8,476,150	\$7,063,459	\$5,650,767	\$4,238,075	\$2,825,383	\$1,412,692	\$0
L8 TOTAL CAPITAL COST (L3+L6+L7)		\$49,305,711	\$45,150,735	\$40,995,760	\$36,840,784	\$32,685,808	\$28,530,833	\$24,375,857
TOTAL CAPITAL PER CALL L8/L9		0.013636937	0.012487757	0.011338577	0.010189397	0.009040217	0.007891037	0.006741857
CURRENT LINE COUNT	2300000							
ASSUMED CALLS / LINE/MONTH	131							
L9 ANNUAL CALL VOLUME		3615600000	3615600000	3615600000	3615600000	3615600000	3615600000	3615600000

FLEX ANI2M

ANNUAL CAPITAL COST PER CALL OF PROVIDING FLEX-ANI @ 18959 OFFICES

INVESTMENT		YR1	YR2	YR3	YR4	YR5	YR6	YR7
L1—Software Inv./per office	9000	(Start of Year)						
L2 — Number of Offices	18959							
Total Initial Investment L1*L2		\$170,631,000						
DEPRECIATION								
L3—Depreciation per year @7 yr. life	7	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857	\$24,375,857
L4—Accumulated Depreciation		\$24,375,857	\$48,751,714	\$73,127,571	\$97,503,429	\$121,879,286	\$146,255,143	\$170,631,000
L5 NET INVESTMENT		\$146,255,143	\$121,879,286	\$97,503,429	\$73,127,571	\$48,751,714	\$24,375,857	\$0
RETURN AND TAXES								
L6 RETURN L5*11.25%		\$16,453,704	\$13,711,420	\$10,969,136	\$8,226,852	\$5,484,568	\$2,742,284	\$0
L7 FIT Gross Up (.34/(1-.34))*L6	0.51515	\$8,476,150	\$7,063,459	\$5,650,767	\$4,238,075	\$2,825,383	\$1,412,692	\$0
L8 TOTAL CAPITAL COST (L3+L6+L7)		\$49,305,711	\$45,150,735	\$40,995,760	\$36,840,784	\$32,685,808	\$28,530,833	\$24,375,857
TOTAL CAPITAL PER CALL L8/L9		0.015682478	0.014360921	0.013039364	0.011717807	0.01039625	0.009074692	0.007753135
CURRENT LINE COUNT	2000000							
ASSUMED CALLs / LINE/MONTH	131							
L9 ANNUAL CALL VOLUME		3144000000	3144000000	3144000000	3144000000	3144000000	3144000000	3144000000

CERTIFICATE OF SERVICE

I, Rena Martens, do hereby certify that on this 9th day of September, 1997, a copy of the foregoing "AT&T Reply" was mailed by U.S. first class mail, postage prepaid, to the parties on the attached service list.


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